

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 PA-02 PRS-01 ERDA-07 AID-05

CEA-01 CIAE-00 CIEP-02 COME-00 DODE-00 FEAE-00 FPC-01

H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-15 SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 /109 W

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P 201523Z MAY 76

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC PRIORITY 9872

UNCLAS OTTAWA 2033

POUCHED INFO ALL CONSULATED IN CANADA

E.O. 11652: N/A

TAGS: ENRG, CA

SUBJ: ENERGY: OIL AND NATURAL GAS PRICE INCREASES

REF: OTTAWA 1998 (NOTAL)

1. SUMMARY. EMR MINISTER GILLESPIE ANNOUNCED ON MAY 18 THAT WELL-HEAD OIL PRICE WOULD RISE BY \$1.05 PER BARREL ON JULY 1 AND AN ADDITIONAL 70 CENTS NEXT JANUARY 1. SIMILARLY, NATURAL GAS PRICES WILL RISE BY 15.5 CENTS ON JULY 1 AND 10 CENTS ON JANUARY 1. GAS EXPORT PRICES WILL ALSO RISE AND TIMING AND AMOUNT WILL BE ANNOUNCED WITHIN ONE MONTH, FOLLOWING GOC REVIEW OF NEB RECOMMENDATIONS AND DISCUSSIONS WITH U.S. END SUMMARY.

2. FOLLOWING IS TEXT OF MAIN SUBSTANTIVE PORTION OF ENERGY, MINES AND RESOURCES MINISTER GILLESPIE'S STATEMENT IN THE HOUSE OF COMMONS THE EVENING OF MAY 18 ON OIL AND GAS PRICE INCREASE: BEGIN TEXT. ...THE GOVERNEMENT HAS NOW REACHED THE FOLLOWING CONCLUSIONS: FIRST, THERE SHOULD BE A STANDARD "FREEZE" PERIOD ON PETROLUUM PRODUCT PRICES OF 60 DAYS ACROSS CANADA WHICH WOULD RUN FROM THE DATE  
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OF ANY INCREASE IN CRUDE OIL AT THE WELL-HEAD. PRICES

TO CONSUMERS WOULD NOT, THEREFORE, RISE UNTIL 60 DAYS FROM THE DATE OF THE AUTHORIZED INCREASE IN THE PRICES PRODUCERS RECEIVE FOR CRUDE OIL.

SECOND, THE PRICE OF CRUDE OIL IN CANADA SHOULD RISE BY \$1.05, THAT IS TO SAY, FROM \$8 TO \$9.05 ON JULY 1, 1976, AND BY A FURTHER 70 CENTS TO \$9.75 ON JANUARY 1, 1977. CONSUMERS WOULD NOT BEGIN TO FEEL THE EFFECTS UNTIL AFTER 60 DAYS FROM THESE DATES.

THIRD, THE PRICE OF NATURAL GAS SHOULD RISE BY 15.5 CENTS AT CITY GATE TORONTO, THAT IS, FROM \$1.25 TO \$1.50.5 PER MILLION B.T.U'S ON JULY 1, 1976, AND BY A FURTHER TEN CENTS TO \$1.50.5 ON JANUARY 1, 1977. I SHOULD NOTE THAT WITH THESE PRICE INCREASES NATURAL GAS WILL CONTINUE FOR AN ADDITIONAL YEAR TO RETAIN ITS APPROXIMATE 85 PER CENT COMMODITY PRICE RELATIONSHIP WITH CRUDE OIL.

FOURTH, EXPORT PRICES ON NATURAL GAS WILL ALSO INCREASE. THE GOVERNMENT IS NOW REVIEWING A REPORT ON THIS SUBJECT FROM THE NATIONAL ENERGY BOARD AND IS DISCUSSING THE SITUATION WITH REPRESENTATIVES OF THE GOVERNMENT OF THE UNITED STATES. WE HOPE TO BE ABLE TO MAKE AN ANNOUNCEMENT CONCERNING THE AMOUNT AND TIMING OF THE INCREASE WITHIN A MONTH. FOR THE THREE PRODUCING PROVINCES, ALBERTA, SASKATCHEWAN AND BRITISH COLUMBIA, WE THINK WE CAN GET AGREEMENT BUT WILL HAVE TO AWAIT THEIR RESPONSE. THAT RESPONSE MAY WELL BE INFLUENCED BY THE CONCLUSIONS WHICH ARE REACHED IN THE NEXT FEW WEEKS CONCERNING EXPORT PRICES. THE DECISIONS I HAVE JUST REPORTED TO THE HOUSE WOULD SEEM LIKELY TO CARRY WITH THEM, THEREFORE THE ACCEPTANCE NOT ONLY OF THE FEDERAL GOVERNMENT BUT OF THE MAJORITY OF PRODUCING AND CONSUMING PROVINCES IN CANADA.

IN MAKING THIS ANNOUNCEMENT I WOULD LIKE TO CONFIRM THAT DESPITE DIFFERING VIEWS AMONG THE PROVINCES AS TO THE IDEAL "FREEZE" PERIOD, ALL HAVE ACCEPTED THE 60- DAY PERIOD THAT WILL NOW BE ADOPTED IN CONNECTION WITH THE UNCLASSIFIED

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COMING INCREASES.

ON THE VITAL QUESTION OF OIL AND GAS PRICES, WE DO NOT HAVE FULL AGREEMENT BETWEEN ALL GOVERNMENTS ACROSS CANADA. A FEW PROVINCES CANNOT BRING THEMSELVES TO ACKNOWLEDGE THE NEED FOR THESE HIGHER PRICES BUT WE BELIEVE, BASED ON OUR DISCUSSIONS, THAT A GOOD MAJORITY WILL DO SO. END TEXT.

3. IN THE COMMONS DEBATE WHICH FOLLOWED THE MINISTER'S STATEMENT, ENERGY CRITICS OF OPPOSITION PARTIES COVERED FAMILIAR GROUND OF POCKETBOOK HARDSHIPS IMPOSED ON CANADIANS BY SIZE OF TWO-STAGE PRICE INCREASES, THE DELETERIOUS EFFECT ON THE ANTI-INFLATION PROGRAM, AND LACK OF ASSURANCE THT HIGHER PRICES WILL ULTIMATELY RESULT IN INCREASED ENERGY SUPPLIES FOR CANADA.

4. IN REPLY, MINISTER GILLESPIE EMPHASIZED, AMONG OTHER THINGS, THAT JULY 1 INCREASE OF \$1.05 PER BARREL OF OIL REPRESENTS ONLY THE AMOUNT BY WHICH INTERNATIONAL PRICES ROSE DURING THE PAST YEAR AND "IS NEEDED SIMPLY TO RESTORE THE DIFFERENTIAL BETWEEN CANADIAN AND INTERNATIONAL PRICES WHICH HAD BEEN WORKED OUT AND AGREED UPON BY THE GOVERNMENT OF CANADA AND THE PRODUCING PROVINCES A YEAR AGO". HE ALSO NOTED THA CANADIANS WOULD STILL BE PAYING A LOWER PRICE FOR OIL THAN OTHER INDUSTRIALIZED COUNTRIES AND "SIGNIFICANTLY BELOW THE UNITED STATES PRICE AS WELL".

5. WITH REGARD TO RETURNS TO THE OIL COMPANIES, MINISTER GILLESPIE SAID THAT "THE IMPORTANT POINT HERE IS THAT THE FEDERAL GOVERNMENT TAX SYSTEM IS KEYED TO AN INCENTIVE FOR EXPLORATION". PROVIDING A CONCRETE EXAMPLE, HE SAID, "IF THE PRODUCERS DO NOT RE-INVEST AT ALL THE COMPANY SHARE WOULD BE ROUGHLY 25 PERCENT OF THE INCREASE WHILE THE FEDERAL GOVERNMENT'S SHARE WOULD BE 27 PERCENT OF THE INCREASE AND THE PROVINCIAL GOVERNMENT'S SHARE WOULD BE 48.4 PERCENT . . . IF THEY, FOR THEIR OWN INTEREST IN ORDER TO MINIMIZE THE TAX BITH, INCREASE EXPLORATION AND DEVELOPMENT BY REINVESTING 50 PERCENT OF THAT DOLLAR, THE FEDERAL GOVERNMENT WOULD GIVE UP UNCLASSIFIED

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VIRTUALLY ALL ITS TAX TAKE, THAT IS TO SAY, IT WOULD REDUCE ITS TAX TAKE TO 3 PERCENT, AND THE PROVINCES' SHARE WOULD BE 44 PER CENT."

6. EXCERPTS FROM COMMONS DEBATE, INCLUDING MINISTER GILLESPIE'S STATEMENT, BEING POUCHED.  
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## Message Attributes

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